

Ideal Power Inc.
Form 10-Q
November 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended September 30, 2018

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the transition period from _____ to _____

Commission File Number 001-36216

IDEAL POWER INC.

(Exact name of registrant as specified in its charter)

Delaware **14-1999058**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

4120 Freidrich Lane, Suite 100

Austin, Texas 78744

(Address of principal executive offices)

(Zip Code)

(512) 264-1542

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period than the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

Edgar Filing: Ideal Power Inc. - Form 10-Q

If an emerging growth company, indicate by check mark whether the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No ý

As of November 9, 2018, the issuer had 13,997,256 shares of common stock, par value \$.001, outstanding.

TABLE OF CONTENTS

<u>PART I</u>	<u>FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1.</u>	<u>Condensed Financial Statements</u>	<u>3</u>
	<u>Balance Sheets at September 30, 2018 (Unaudited) and December 31, 2017</u>	<u>3</u>
	<u>Statements of Operations for the three and nine months ended September 30, 2018 and 2017 (Unaudited)</u>	<u>4</u>
	<u>Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 (Unaudited)</u>	<u>5</u>
	<u>Notes to Unaudited Financial Statements</u>	<u>6</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>18</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>19</u>
<u>PART II</u>	<u>OTHER INFORMATION</u>	<u>20</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>20</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>20</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>22</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>22</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>22</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>22</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>22</u>
<u>SIGNATURES</u>		<u>23</u>

PART I - FINANCIAL INFORMATION**ITEM 1. CONDENSED FINANCIAL STATEMENTS****IDEAL POWER INC.****Balance Sheets**

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$5,538,765	\$10,022,247
Accounts receivable, net	279,299	221,084
Inventories, net	131,765	251,363
Prepayments and other current assets	83,382	283,208
Total current assets	6,033,211	10,777,902
Property and equipment, net	458,856	669,571
Intangible assets, net	2,109,981	2,082,014
Other assets	55,420	37,500
Total Assets	\$8,657,468	\$13,566,987
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$737,083	\$449,475
Accrued expenses	1,068,418	1,081,155
Total current liabilities	1,805,501	1,530,630
Other long-term liabilities	465,181	456,234
Total liabilities	2,270,682	1,986,864
Commitments and contingencies (see Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 1,518,430 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,518	1,518
	14,004	13,998

Edgar Filing: Ideal Power Inc. - Form 10-Q

Common stock, \$0.001 par value; 50,000,000 shares authorized; 14,004,465 shares issued and 13,999,756 shares outstanding at September 30, 2018 and 13,998,465 shares issued and 13,996,121 shares outstanding at December 31, 2017, respectively		
Additional paid-in capital	67,919,163	67,081,359
Treasury stock, at cost; 4,709 shares at September 30, 2018 and 2,344 shares at December 31, 2017	(10,105)	(7,489)
Accumulated deficit	(61,537,794)	(55,509,263)
Total stockholders' equity	6,386,786	11,580,123
Total Liabilities and Stockholders' Equity	\$8,657,468	\$13,566,987

The accompanying notes are an integral part of these condensed financial statements.

IDEAL POWER INC.**Statements of Operations****(unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Product revenue	\$342,661	\$444,640	\$1,144,103	\$973,680
Cost of product revenue	552,127	418,529	1,471,890	1,894,068
Gross profit (loss)	(209,466)	26,111	(327,787)	(920,388)
Operating expenses:				
Research and development	854,364	1,075,849	2,517,688	3,374,386
General and administrative	921,276	899,882	2,630,936	2,976,260
Sales and marketing	264,705	271,844	588,937	1,240,713
Total operating expenses	2,040,345	2,247,575	5,737,561	7,591,359
Loss from operations	(2,249,811)	(2,221,464)	(6,065,348)	(8,511,747)
Interest income (expense), net	(112)	3,865	36,817	15,440
Net loss	\$(2,249,923)	\$(2,217,599)	\$(6,028,531)	\$(8,496,307)
Net loss per share – basic and fully diluted	\$(0.16)	\$(0.16)	\$(0.43)	\$(0.66)
Weighted average number of shares outstanding – basic and fully diluted	13,996,299	13,990,202	13,993,423	12,964,452

The accompanying notes are an integral part of these condensed financial statements.

IDEAL POWER INC.**Statements of Cash Flows****(unaudited)**

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(6,028,531)	\$(8,496,307)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for doubtful accounts	(98,677)	226,557
Write-down of inventory	67,515	703,220
Depreciation and amortization	297,007	339,493
Write-off of capitalized patents	15,478	268,789
Write-off of fixed assets	7,128	53,445
Stock-based compensation	837,810	833,637
Decrease (increase) in operating assets:		
Accounts receivable	40,462	(234,980)
Inventories	52,083	214,466
Prepayments and other current assets	181,906	159,366
Increase (decrease) in operating liabilities:		
Accounts payable	287,608	(59,653)
Accrued expenses	(3,790)	67,722
Net cash used in operating activities	(4,344,001)	(5,924,245)
Cash flows from investing activities:		
Purchase of property and equipment	(19,613)	(44,819)
Acquisition of intangible assets	(117,252)	(220,865)
Net cash used in investing activities	(136,865)	(265,684)
Cash flows from financing activities:		
Net proceeds from issuance of stock	-	13,657,331
Payment of taxes related to stock award vesting	(2,616)	(1,574)
Exercise of options and warrants	-	11,143
Net cash provided by (used in) financing activities	(2,616)	13,666,900
Net increase (decrease) in cash and cash equivalents	(4,483,482)	7,476,971
Cash and cash equivalents at beginning of period	10,022,247	4,204,916
Cash and cash equivalents at end of period	\$5,538,765	\$11,681,887

The accompanying notes are an integral part of these condensed financial statements.

Ideal Power Inc.

Notes to Financial Statements

(unaudited)

Note 1 – Organization and Description of Business

Ideal Power Inc. (the “Company”) was incorporated in Texas on May 17, 2007 under the name Ideal Power Converters, Inc. The Company changed its name to Ideal Power Inc. on July 8, 2013 and re-incorporated in Delaware on July 15, 2013. With headquarters in Austin, Texas, it develops power conversion solutions with an initial focus on solar + storage, microgrid and stand-alone energy storage applications. The principal products of the Company are 30-kilowatt power conversion systems, including 2-port and multi-port products.

Since its inception, the Company has generated limited revenues from the sale of products and has financed its research and development efforts and operations through the sale of common stock and, prior to its initial public offering, the issuance of convertible debt. The Company’s continued operations are dependent upon its ability to obtain adequate sources of funding through future revenues, follow-on stock offerings, debt financing, co-development agreements, sale or licensing of developed intellectual property or other alternatives.

On April 16, 2018, the Company realigned into two operating divisions: Power Conversion Systems, to continue the commercialization of its PPSA™ technology, and B-TRAN™, to develop its Bi-directional bi-polar junction TRANSistor (B-TRAN™) solid state switch technology.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Balance Sheet at December 31, 2017 has been derived from the Company’s audited financial statements.

In the opinion of management, these financial statements reflect all normal recurring, and other adjustments, necessary for a fair presentation. These financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year or any other future periods.

Liquidity and Going Concern

As reflected in the accompanying condensed financial statements, the Company had a net loss of \$6.0 million and used \$4.3 million of cash in operating activities for the nine months ended September 30, 2018. At September 30, 2018, the Company had net working capital of \$4.2 million and the Company's principal source of liquidity consisted of \$5.5 million of cash and cash equivalents.

In order to meet the Company's operating requirements, it will need to raise additional capital from third parties. There can be no assurance that the Company will be successful in obtaining third party financing. If external financing sources are not available or are inadequate to fund operations, or forecasted revenue growth does not materialize, the Company will be required to reduce operating costs, which could jeopardize future strategic initiatives and business plans.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The ability of the Company to continue as a going concern is dependent on its ability to raise additional capital and to develop profitable operations through implementation of its current business initiatives, however, there can be no assurances that the Company will be able to do so. The accompanying condensed financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Recently Adopted Standards

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity